

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re: : Chapter 11
RICHARDS CONDITIONING CORP., : Case No. 09-22525 (RDD)
Debtor :
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S.D.N.Y.

U.S. BANKRUPTCY COURT
FILED
2010 MAY - 1 P 3:19

EXAMINER'S REPORT
ON STATUS OF DEBTOR'S BOOKS AND RECORDS

TO THE HONORABLE ROBERT D. DRAIN
UNITED STATES BANKRUPTCY JUDGE

Introduction

This report is respectfully submitted by M. Jacob Renick, CPA/CFF, CIRA, CDBV, CFE, the examiner ("Examiner") appointed in this chapter 11 case, pursuant to the Order of the Court of February 9, 2010.

In the January 22, 2009 Order Denying Motion of Creditors Sheet Metal Workers Funds Of Local 38 For Conversion Of Debtor's Chapter 11 Case And Directing The Appointment Of An Examiner And Specifying Scope Of Examiner's Investigation And Duties Pursuant To Sections 1104(c)(1) and 1106(b) of The Bankruptcy Code, the Court specified that as part of his/her investigation, the Examiner should report to the court, among other matters, the status of the Debtor's books and records.

Debtor's accounting system

The Debtor maintains its books on a fiscal year ending September 30 and utilizes Sage Timberline Office ("Timberline System"), a computerized general ledger system

specifically designed for the construction and real estate industries. The Debtor records all of its billings, vendor invoices, cash receipts and cash disbursements, including payroll, on the Timberline System. Items directly relating to a particular project are charged to that project, however the allocation of direct overhead costs that are considered part of the cost of improvement (i.e. of a materialman) are not charged to any particular project on the Timberline System, but are included in the calculation of cost at the end of the accounting period. Consequently, the Debtor can at any point in time, track all billings and all direct costs of a particular project, however the Debtor cannot calculate profitability on a project until such time as it allocates its direct overhead costs.

Payroll

The payroll is prepared weekly by CompuPay (an outside payroll service) based upon information provided to it by Debtor's bookkeeper. In addition, the bookkeeper inputs the payroll information into the Timberline system and charges it to particular projects based upon information included on the time cards. Accordingly, the cost of direct labor is charged directly to each project on the Timberline System.

Reconciliation of accounts

On a monthly basis, the Debtor reconciles its bank accounts. In addition, on a monthly basis, it reconciles its accounts receivable and its accounts payable on a project-by-project basis, except for the Cooper Union project, where it was a subcontractor for F.J. Sciame Construction, Inc. ("Sciame"), as Sciame supposedly has not provided the Debtor with the details of direct payments it made to Debtor's vendors. Consequently, the Debtor does not have full knowledge of which vendors it still owes money to on the Cooper Union project.

Financial statements and tax returns

As was indicated, the Debtor maintains its books on a fiscal year ending September 30. Over the years, the Debtor retained various individuals or firms to compile or audit its financial statements and prepare its corporate income tax returns. The last financial statements compiled or audited were for the year ended September 30, 2007. In addition, the last corporate tax returns filed by the Debtor were for the same period (i.e. FYE September 30, 2007). Since that time, no formal financial statements have been prepared nor have any corporate income tax returns been prepared or filed.

Dated: May 6, 2010
New York, New York

Respectfully submitted,

/s/M. Jacob Renick
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